

**SOUTH CAROLINA
WORKERS' COMPENSATION COMMISSION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 4, 2008

The Honorable Mark Sanford, Governor
and
Commissioners
South Carolina Workers' Compensation Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Workers' Compensation Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2007, in the areas addressed. The Commission's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts from fiscal month 12 and 13, fiscal year 2007, and fiscal month 01, fiscal year 2008 to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

- We compared current year recorded revenues at the subfund and minor object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general and earmarked funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$36,600 – general fund and \$22,300 – earmarked fund) and ± 10 percent.
- We made inquiries of management pertaining to the agency's policies for accountability and security over documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements from fiscal month 12 and 13, fiscal year 2007 and fiscal month 01, fiscal year 2008 to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and minor object code level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$27,500 – general fund and \$21,700 – earmarked fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Journal Entries in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.

- We inspected payroll transactions for all new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures at the subfund and minor object code level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$27,500 – general fund and \$21,700 – earmarked fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Pay Calculation in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation/Revenue Transfers**

- We inspected selected recorded journal entries and appropriation/revenue transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Journal Entries in the Accountant's Comments section of this report.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Commission to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, prepared by the Commission and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Operating Lease Closing Package in the Accountant's Comments section of this report.

9. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the Independent Accountant's Report on the Commission for the fiscal year ended June 30, 2006, to determine if the agency had taken corrective action.

Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
Commissioners
South Carolina Workers' Compensation Commission
September 4, 2008

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the Commission and management of the South Carolina Workers' Compensation Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

PAY CALCULATIONS

One of the fifteen termination pay transactions tested contained an error that resulted in an overpayment of \$45. The overpayment occurred because the Office calculated the employee's final pay based on 75.0 hours instead of 82.5 hours.

Sound business practice requires management to establish and maintain effective internal controls to ensure that all pay calculations and payments made are accurate. In addition, Section 8-11-30 of the South Carolina Code of Laws prohibits a person from receiving a salary from the State, which is not due or persons employed by the State from paying salaries or monies not due to State employees.

We recommend that the Office establish and implement procedures to ensure that payments to employees are accurate and to ensure timely detection and correction of errors when they occur.

RECONCILIATIONS

The Comptroller General's Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations. Reconciliation between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on Comptroller General reports "...provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper." To ensure adequate error detection and to satisfy audit requirements, the State requires agencies to perform monthly

reconciliations of cash, revenues, and expenditures. The cited STARS Manual section lists the following reconciliations requirements:

- Performed at least monthly on a timely basis (i.e., shortly after month-end)
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes
- Signed and dated by the preparer
- Reviewed and approved in writing by an appropriate agency official other than the preparer.

We noted the following deficiencies in the Commission's reconciliation procedures:

1. Fiscal month 02 (August 2006) was not reviewed until October 24, 2006.
2. Fiscal month 03 (September 2006) was not reviewed until November 26, 2006.
3. Fiscal months 06 (December 2006) and 07 (January 2007) were not prepared nor reviewed until March 1, 2007.

We recommend that the Commission adhere to the STARS Manual by implementing adequate measures to ensure that reconciliations are prepared and reviewed on a timely basis (shortly after month-end).

OPERATING LEASE CLOSING PACKAGE

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared closing packages because the State's accounting system (STARS) is on a budgetary basis. We reviewed the Operating Lease Closing Package submitted to the CG and found that the Commission omitted the lease identification number in responding to a question about leases with scheduled rent increases.

Section 1.7 of the GAAP Closing Procedural Manual (GAAP Manual) states that each agency's executive director and finance director are responsible for submitting to the CG closing package forms that are accurate, prepared in accordance with instructions, complete, and timely.

We recommend that the Commission strengthen control procedures to ensure that persons preparing and reviewing closing packages are knowledgeable of GAAP Manual instructions and perform a careful review of closing packages and supporting data.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

JOURNAL ENTRIES

During our analytical review of expenditures, we noted that the Commission reported a negative expenditure of \$6,536 under object code 0225 - Other Professional Services for the fiscal year ended 2007. The negative expenditure occurred because the Commission posted a journal entry to reclassify expenditures between expenditure object codes twice. The first journal entry was recorded in fiscal month 06. Accounting personnel recorded the transaction again in fiscal month 13. We were also told that the remaining balance in the account (\$986) was misclassified and that the accountant discovered the error but failed to make the necessary correcting journal entry.

Effective internal controls require review procedures to prevent and detect errors and ensure that detected errors will be corrected.

We recommend that the agency strengthen its internal controls to ensure that account balances and recorded activities are reviewed before and after journal entries are made to prevent or detect errors.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the Independent Accountant's Report on the Commission for the fiscal year ended June 30, 2006, and dated September 12, 2007. We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated the finding Reconciliations in the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE



Workers' Compensation Commission

December 10, 2008

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

**Re: South Carolina Workers' Compensation Commission
State Auditor's Report — June 30, 2007**

Dear Mr. Gilbert:

We have received the preliminary draft of the State Auditor's Report of the South Carolina Workers' Compensation Commission for the fiscal year ending June 30, 2007. I have reviewed the report and can now authorize its release. Enclosed you will find a listing of the Commissioners, their home addresses and their email addresses.

With respect to the audit findings, our response and corrective action plan is listed below for each finding.

Pay Calculations

The Commission will establish and implement a procedure to have termination pay calculations reviewed prior to submission of payroll reports. This should ensure that payments to employees are accurate and any error is detected and corrected timely. Having two individuals involved in such a calculation should avert the \$45 overpayment that was noted.

Reconciliations

While all monthly reconciliations were performed, it was noted that reconciliations under the State's accounting system (STARS) should be prepared shortly after month end. With the implementation of the SCEIS financial system, STARS is no longer used and our reconciliations are no longer done manually. This is a significant efficiency gained with the adoption of SCEIS; our accounting system is more automated saving considerable time and providing better financial information for management.

Mr. Richard H. Gilbert, Jr., CPA
December 10, 2008
Page Two

Operating Lease Closing Package

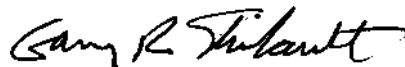
It was noted that a lease identification number was omitted in the Operating Lease Closing Package. The Commission will strengthen control procedures to ensure that those preparing and revising closing packages are knowledgeable of GAAP Manual instructions and will carefully review closing packages and supporting data.

Journal Entries

The audit noted an error in a journal entry to reclassify an expenditure. The Commission will strengthen its internal controls to include review procedures so as to prevent and detect errors and ensure that detected errors will be corrected.

Should you have any questions or need additional information, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary R. Thibault". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

Gary R. Thibault
Executive Director

GRT:t
Enclosure

4 copies of this document were published at an estimated printing cost of \$1.58 each, and a total printing cost of \$6.32. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.